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The Child Benefit

A White Paper on
Canada's New Integrated
Child Tax Benefit

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Canadians understand that our future well-being and prosperity depend on our children. No one would dispute the fact that by world standards, Canadian children are well cared for and healthy, and receive a good education.

But I believe that Canadians also realize that difficult problems remain. Far too many Canadian children grow up in conditions that make it hard for them to succeed later in life. When it comes to behaviour, I am personally saddened that violence and abuse still remain major problems. If our young people are to lead fulfilling, productive lives in a global economy, we must strengthen our efforts now.

No single organization can or should come up with the whole answer. Finding solutions must be the shared responsibility of parents, educators, community groups, and all levels of government. We must find better ways of working together.

Parents, of course, are the main providers of support for their children as has long been recognized in the government's programs of Family Allowances and tax assistance. The child benefit described in this paper will be an important step forward in the way the federal government gears assistance to give children a stronger start in life.

The increased deduction limit for child care expenses announced in the budget is another step forward.

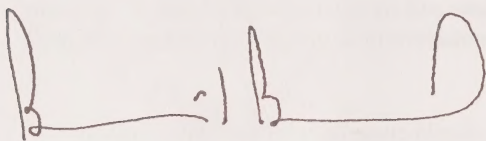
The child benefit combines the earlier Family Allowances and tax assistance into a unified child tax benefit that brings greater financial resources to children, especially to improve the situation for those in lower-income working families. It provides assistance in a way that is dramatically simpler and more responsive to real family needs.

The child benefit is an important part, but only one part, of our campaign in support of children because income support is not the only answer. Community action is needed as well. Sometimes parents do not have the information or the support needed to deal with particular problems, such as ill health or abuse.

THE CHILD BENEFIT

I am, therefore, going to work with representatives of the provinces and key groups on a related package of initiatives directed more specifically toward helping young children at risk. Prevention, promotion and partnership are main themes in my approach.

Every family, community and society has a responsibility to look after the needs of future generations. All children should be given the best possible start to charting their futures and our common well-being. We must make our actions for children a legacy of better tomorrows.

A handwritten signature in dark ink, appearing to read 'B. Bouchard', with a stylized flourish at the end.

The Honourable Benoît Bouchard
Minister of National Health and Welfare

The new child benefit

From Family Allowances to child tax benefit

The child tax benefit proposed by the federal government in the February 1992 budget will strengthen Canada's half-century commitment to assisting families with children. Due to go into effect in January 1993, the child benefit will be delivered monthly and will increase assistance to families with low and middle incomes. Lower-income families with one child will receive a monthly payment of up to \$144, significantly more than the monthly payment of \$35 they now receive. Approximately two million families with incomes below \$50,000 will receive larger monthly payments than they do now.

Since the introduction of Family Allowances in 1945, assistance to children has become a cornerstone of Canada's social commitment to its people. A child tax deduction was added in 1947. The refundable child tax credit was introduced in 1979 to increase assistance to families with low and modest incomes. But shortcomings have appeared in this patchwork system as it has grown over the years. These problems, outlined in the next section, have been identified by many national groups and individual Canadians.

The new approach proposed by the government will unify allowances, credits and refunds into a single monthly benefit and incorporate additional support for lower-income working families with children. The federal government's commitment to child assistance under the three existing programs is projected to be \$4.5 billion in 1992. The new consolidated child tax benefit will increase this amount by \$400 million, and concentrate more assistance on those who need it most.

Adoption of the new child tax benefit will serve three main objectives.

- **Increase and target benefits:** Total federal child assistance will be greater and increased benefits will be directed to low- and modest-income families. Over the next five years, the child tax benefit will provide almost \$2.1 billion in increased child assistance.
- **Supplement earnings:** The child tax benefit will include a new federal earned-income supplement that will provide additional support for low-income parents in the work force.
- **Consolidate benefits:** The three existing programs and sets of delivery systems will be reduced to one, replacing the patchwork of child benefits

with a simple system. Since the new benefit will be paid monthly, it will be more responsive to family needs than current child tax assistance, for which families sometimes have to wait several months.

The present system and its shortcomings

Amounts and conditions of benefits

The federal government spends \$4.5 billion a year on the three existing major programs of child assistance, as shown in Table 1. These programs are the largest and most direct form of support provided by the federal government to families with children. Support is also provided through the goods and services tax credit, the child care expense deduction, and maternity and parental benefits under the unemployment insurance program. Also, under the Canada Assistance Plan, the federal government cost-shares eligible expenditures by provinces and territories in providing social assistance and services, including subsidized child care, to low-income families with children.

The three major programs are outlined below.

Family Allowances

Family Allowances of about \$35 per child are paid monthly, for a total of \$419 a year, to all Canadian families with children under age 18. Payments are generally made to the mother. Family allowance payments are taxable and are partially or fully recovered from the higher-income spouse.

Child credit

An annual child credit of \$71 per child is provided for each dependent child age 18 or under at the end of the tax year. The credit is doubled for the third child and additional children. To benefit, the parents must have taxes owing, since the credit is not refundable.

Refundable child tax credit

A refundable child tax credit of up to \$601 a year is provided for each child age 18 or under at the end of the tax year. In addition, a supplement of up to \$213 per child for children under age seven is provided to families not claiming child care expenses. These benefits are gradually reduced as family income increases above \$25,921.

Table 1
Present federal child benefits

Program	Number of families	Net benefit
	(# million)	(billions of dollars)
Family Allowances	3.7*	1.9
Child credit	3.3	0.4
Refundable child tax credit	2.3	2.2
Overall benefits	3.7	4.5

* Of these families, 0.6 million have their Family Allowance payments mostly or fully recovered at tax time.

Shortcomings of the present system

Improvements to the child benefit system have been urged by two parliamentary committees, social policy groups outside government, and many individual Canadians. They have identified five main shortcomings of the present system.

Inadequate support for low-income families

Although lower-income families receive the largest child benefits, many groups have argued that greater assistance is needed to help children in lower-income families.

Inconvenient patchwork

Benefits are delivered piecemeal in three different ways: a Family Allowance cheque mailed monthly; an annual child credit that reduces tax liabilities; and a refundable child tax credit mailed as a lump-sum payment after tax returns are assessed, although some families receive a partial prepayment in November. This delivery patchwork is further complicated by different eligibility criteria for each program. In addition, for 600,000 higher-income families, Family Allowances involve the cumbersome process of monthly payments for a year followed by recovery of most or all of these payments at tax time.

Inadequate targeting

Currently, Family Allowances are targeted according to individual income. This means that families with similar total incomes may receive different levels of benefits. Family income is a better basis for directing assistance to children.

No support for low-income working families

In choosing to work, low-income families with children are faced with employment-related expenses and possibly a reduction in social assistance benefits. The present child benefit system does nothing to reinforce their incentive to work.

Delays

For many families, the refundable child tax credit represents more than half of their federal child benefit, but fails to meet their immediate needs. The full amount of the credit is paid only after tax returns are assessed. This delay is difficult for many modest-income families: they must pay for their children's needs every month, but may have to wait more than a year to receive the full credit. Many families resort to tax discounters in order to receive early payments and thereby sacrifice part of their benefits.

Finding a solution

The new monthly child tax benefit, described in the next section, is designed to address the problems that have emerged as the present system evolved.

Moving to the new child benefit

Key features of the new benefit

The child tax benefit proposed by the government will be a single monthly payment, generally made to the mother, replacing the existing patchwork of benefits. The monthly amounts for a year will be based on income reported in previous years. These are straightforward payments that will neither be taxed nor recovered at tax time. All children under age 18 will be eligible. The child tax benefit will have two elements:

- The present Family Allowances, child credit, and refundable child tax credit will be consolidated into one benefit paid monthly.
- A new federal earned-income supplement will increase the new benefit by up to \$500 for low-income working families with children.

To focus assistance on children in low- and middle-income families, the child tax benefit will be gradually reduced for families with incomes above designated thresholds. Table 2 shows how the annual amount of the child tax benefit is distributed by family size and income.

The monthly payments will be adjusted to reflect changes in families, such as the birth of a child. Payments will be updated annually to reflect the latest tax information on family income. They will also be adjusted annually for increases in the consumer price index (CPI) in excess of 3 per cent.

Table 2
Annual value of the new child benefit
by number of children

Family income	All family types		
	One child	Two children	Three children
	(dollars)		
0	1,020	2,040	3,135
10,000	1,520	2,540	3,635
20,000	1,520	2,540	3,635
30,000	918	1,836	2,931
40,000	668	1,336	2,431
50,000	418	836	1,931
60,000	168	336	1,431
75,000	0	0	681
100,000	0	0	0

Notes:

1. The basic benefit will be reduced at a rate of 5 per cent of family net income over \$25,921 for families with two or more children, and at a lower rate of 2.5 per cent for families with one child. The earned-income supplement portion will increase at a rate of 8 per cent of annual earnings over \$3,750; it will be reduced at a rate of 10 per cent of family net income over \$20,921.
2. Families not claiming the child care expense deduction will receive an additional \$213 for each child under seven.
3. Single-parent families also receive the equivalent-to-married credit for the first child, which is worth, on average, \$1,445 in reduced federal and provincial taxes.

Transition

The proposed child tax benefit will replace the three existing programs on January 1, 1993. The first monthly payment will be made that month, based on family incomes reported for the 1991 taxation year. Beginning in July 1993, the monthly payments will be based on 1992 tax information. Each July thereafter, payments will be updated to reflect the previous year's tax information.

The last monthly Family Allowance payment will be made in December 1992. The final child credit and refundable child tax credit will be claimable when filing 1992 tax returns in the spring of 1993.

Comparing the benefits:

Helen and Peter and children

Peter works as an electrician, Helen is currently on leave.

They are married with two children, Linda, age 1, and Martin, age 4.

Family income:	Wages	\$40,750
	Interest income	\$ 350

Non-standard deductions:	Pension contributions	\$ 800
	Union dues	\$ 300

Old: Under the present child benefit system, Helen receives \$69.76 a month – a total of \$837 a year – for Linda and Martin. Peter pays tax on the Family Allowance payments, although this is partially offset by a child credit of \$71 for each child. Based on their family income, Helen receives a refundable child tax credit of \$882 after filing her tax return for 1992. Total benefits for Linda and Martin are \$1,599.

New: After the introduction of the child tax benefit, Helen will receive a single monthly cheque of \$146.83 – a total annual benefit of \$1,762. (Unlike Family Allowances, the new benefit will not be subject to tax.) Annual assistance for Martin and Linda will be up by \$163.

Note: For residents of Québec and Alberta, Family Allowance payments differ from those shown.

Comparing the benefits:

Patricia and children

Patricia, a single parent, works in a clothing store.

Two children, Andrew, age 3, and Jane, age 8.

Family income:	Wages	\$19,500
Non-standard deduction:	Child care expenses	\$ 1,500

Old: Under the present child benefit system, Patricia receives a monthly Family Allowance cheque of \$69.76 – a total of \$837 a year – for Andrew and Jane. Patricia pays tax on the Family Allowance payments, although she also receives an equivalent-to-married credit of \$915 for Jane and a regular child credit of \$71 for Andrew. In November 1992, Patricia receives a prepayment of the refundable child tax credit – the remaining \$400 is paid after the tax return is filed. Total annual benefits for Andrew and Jane are \$1,925.

New: After the introduction of the child tax benefit, Patricia will receive a single monthly cheque of \$211.67 – a total annual benefit of \$2,540. (Unlike Family Allowances, the new child benefit will not be subject to tax.) Patricia will also retain the equivalent-to-married credit for Jane. Annual assistance for Jane and Andrew will be up by \$615.

Notes:

1. For residents of Québec and Alberta, Family Allowance payments differ from those shown.
2. The equivalent-to-married credit increases the total level of assistance for children by an average of \$1,445, to \$3,370 under the present system and to \$3,985 under the new system.

Advantages of the new child benefit

The new system in action

The new child tax benefit has a number of important advantages. They are highlighted below.

Improved benefits

The large majority of families with children will receive more assistance. Federal assistance to families with children will increase by \$400 million a year, from \$4.5 billion to \$4.9 billion.

Greater benefits for low- and modest-income families

As Table 3 shows, average annual benefits for families with incomes below \$50,000 will be \$250 higher under the new system.

Table 3
Change in average annual benefits per family

Family income	Present system	New system	Change
(thousands of dollars)		(dollars)	
0 – 30	1,825	2,075	250
30 – 50	1,440	1,690	250
50 – 75	875	960	85
75+	470	295	-175
All families	1,150	1,260	110

Effective targeting of benefits

The new system is a more effective way of assisting Canadian families with children for several reasons.

- Single parents have the greatest need for child assistance because they face the combined responsibility of earning a living and caring for their children. In addition to the new child tax benefit, they will retain the present equivalent-to-married credit for their first child. For many single parents, this is worth an average of \$1,445 in reduced federal and provincial taxes.

- The new child benefit will continue a \$213 supplement for each child under seven where no child care expenses are deducted, and it will provide a \$75 supplement for the third child and additional children.
- The child tax benefit will be reduced according to family income, not individual income. This will better direct child assistance according to family needs.

Supplement to earnings

For low-income families with children, the new earned-income supplement included in the child tax benefit will top up earnings to a maximum of \$500 a year. This will provide extra support to help meet family needs. It will also reinforce the incentives for low-income parents to participate in the work force.

Simplification

The present three sets of delivery systems and eligibility criteria will be reduced to one. Other complications, such as reconciliations and recoveries when tax forms are assessed, will also be eliminated. Figure 1 shows how the child tax benefit will consolidate the present patchwork of benefits and tie the level of assistance more directly to family needs than the present system does.

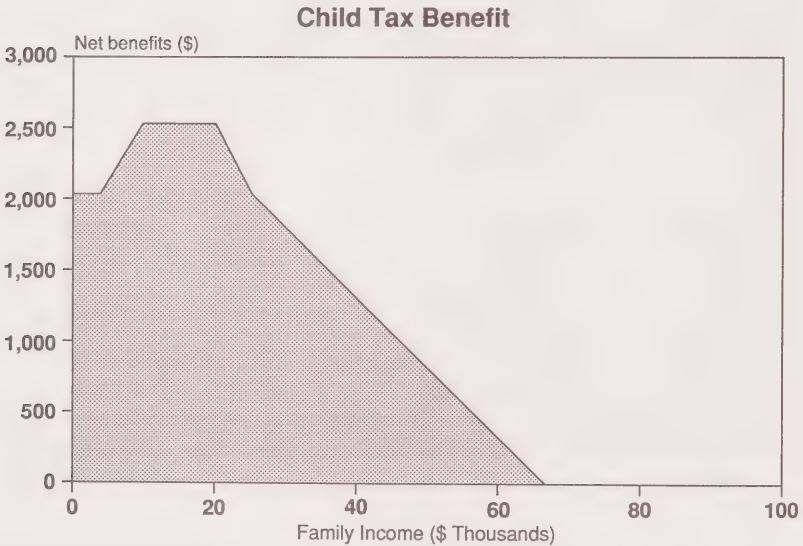
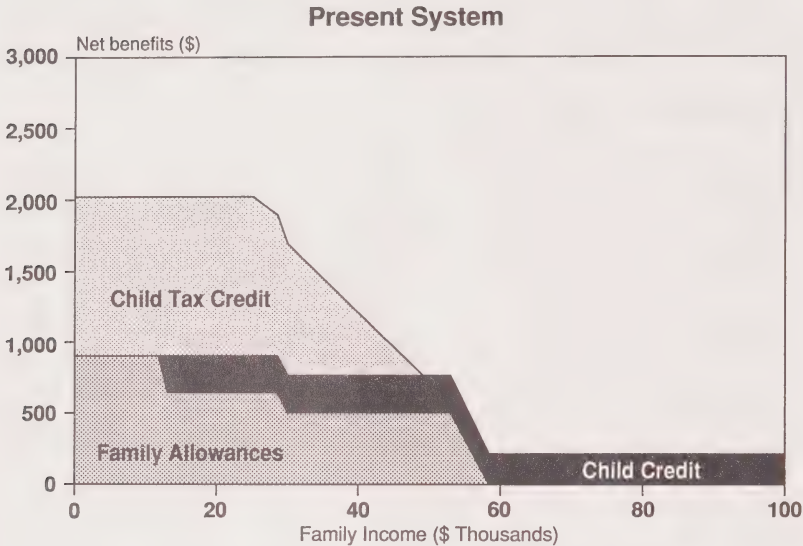
Child benefit payments will be calculated by the government and sent to families. Taxpayers will not have to apply for them annually or make any of the calculations on the tax form now required in connection with Family Allowances, the child credit, and the refundable child tax credit. This will simplify the basic income tax form.

Responsiveness

The child benefit will be more responsive to family needs.

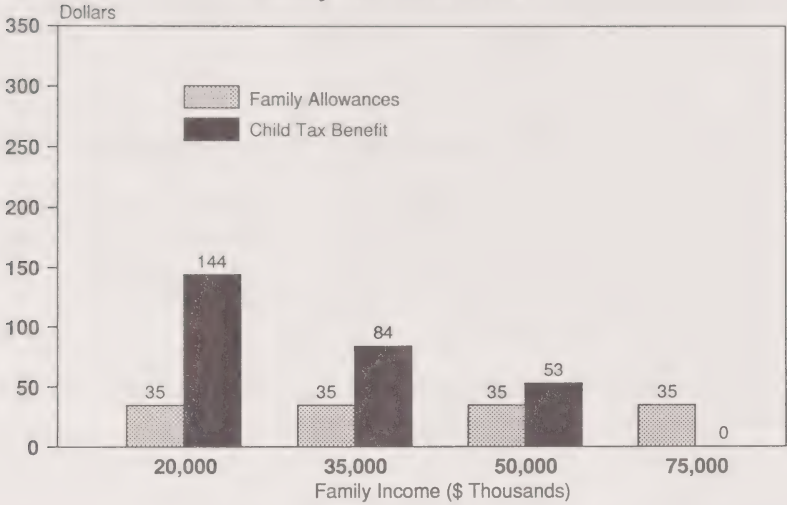
- Changes in family status, such as the birth of a child, will be reflected in adjustments to monthly payments.
- Other changes in family status, such as a marriage breakdown, could result in adjustments to monthly payments. As in the case of Family Allowances, benefits will be extended to immigrant families with children.

Figure 1
Annual Child Benefits
One-Earner Couple, Two Children¹

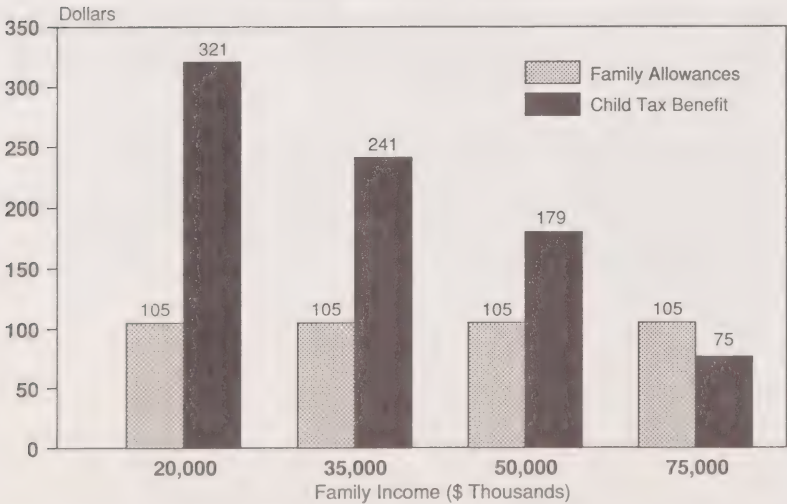


¹ Both children over age six.

Figure 2
Monthly Payments¹
Family With One Child²



Family With Three Children²



¹ This comparison excludes present benefits under the child credit and refundable child tax credit, which are not delivered monthly.

² One child under age seven.

- The monthly payments will provide assistance as it is needed to help with the expenses of caring for children. Moving to the new benefit will increase the monthly payments for approximately two million families with incomes below \$50,000. As shown in Figure 2, these families will receive up to three-and-a-half times more in monthly child tax benefits than they do now under Family Allowances.

Implications for provincial governments

Under the new system, provincial governments will be able to request the federal government to reconfigure benefits distributed within their borders in a manner similar to present practice. Only Alberta and Québec have reconfigured Family Allowances under the present system; they could continue this practice under the new one.

The move to the child benefit is expected to have minimal net effect on revenues and expenditures of provincial governments.

Next steps

Federal child assistance is an important source of support for millions of families. The proposed improvements will be of lasting benefit to Canadian families and the whole of Canadian society.

The Minister of National Health and Welfare will be entering into discussions on implementation of the new regime. These will involve his provincial colleagues and all interested parties. The government expects to be in a position to introduce legislation in time for consideration before the House recesses for the summer.

